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Berks County 2016 Proposed Budget

We are pleased to present the 2016 budget for consideration and adoption by the Board of Commissioners. We believe this budget is responsive to the needs of the County taxpayers and the Commissioners' goal of a responsible budget that does not place an undue tax burden upon the citizens of Berks County. This budget specifically achieves the Commissioners' directives to present a budget: without a tax increase, that supports our anticipated core service levels, maintains our strong financial position and AA1 – stable outlook bond rating, limits the growth of new discretionary County services, limits wage and contracted service growth to CPI, and headcount growth to positions for which there is reimbursement, funds one-time capital expenditures with reserves, does not add net debt, prioritizes capital expenditures for facility infrastructure and technology that enhances process improvement, and maintains long standing commitments to education, transportation, economic development, agriculture and library systems. This budget is the outcome of a highly collaborative effort with the Commissioners and each County department which began in January 2015. The Commissioners have provided direction and guidance as we have dealt with numerous operational and fiscal issues that impact both 2016 and future years.

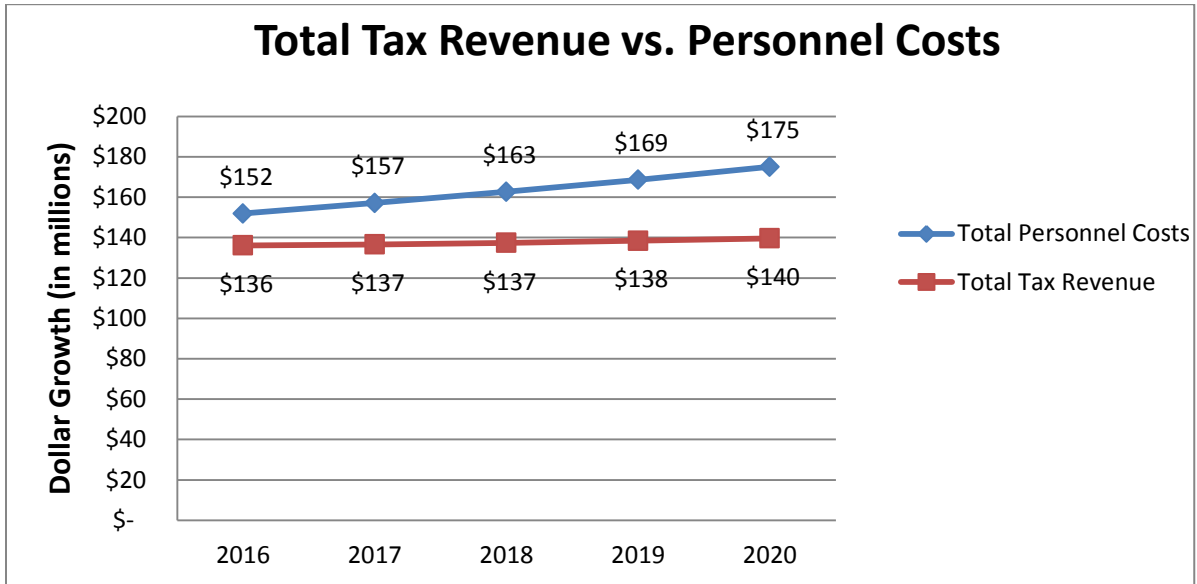
This budget reflects a total budget deficit, excluding bond funded improvements, of \$16.6M. This is a substantial increase over the 2015 adopted budget deficit of \$3.7M. This increase, which is more fully explained in the sections that follow, is primarily due to a one time use of reserves of \$15M to defease (i.e. payoff) outstanding debt which saves the county \$4M over the life of the bond, net of the upfront payment. But for this decision, the operating deficit would be \$2.9M. Our recommendation is to absorb this deficit with reserves and to maintain, rather than increase, the current tax rate of 7.372 mills for 2015. This budget assumes federal and state funding will satisfy the demand for our core human services throughout 2016. We recommend the use of reserves in the amount of \$9.2M for one-time upgrade to and replacement of our infrastructure and technology assets; instead of adding additional, recurring debt service costs, which would otherwise require a future tax increase.

This budget provides for the continued maintenance and improvement of our facilities and parks, maintains a commitment to agricultural land preservation, satisfies our pension and debt service obligations, and maintains our commitment to education (i.e. RACC), economic development (i.e. GREP), and the Library system.

We continue to face structural budget challenges. The average rate of inflation in our personnel costs continues to outpace the rate of growth in our tax base and corresponding property tax revenue. This disparity becomes very evident when one compares the

projected net tax revenue (i.e. Gross tax revenues minus expected tax refunds from appeals and tax incremental financing) to personnel expenditures as depicted in Exhibit 1.

EXHIBIT 1



Other significant factors include: new 911 radio system debt service, the Affordable Care (i.e. Cadillac) tax and increase in County match for children services due to the impact of the “Sandusky” laws. But for these changes our projected budgets would be balanced through 2019. These changes will be difficult to overcome without legislative change. The impact of these factors is seen in our forecast in Exhibit 2.

EXHIBIT 2

Year	2017	2018	2019	2020
Deficit	\$0.1M	\$0.6M	\$5.7M	\$12.3M
Tax Equivalent %	0.88%	1.17%	5.10%	10.04%

(Note: The tax equivalent percentage is what is necessary to balance each year assuming there is not a tax increase in the prior year)

Balancing these future budgets with minimal tax increases will require:

- Acceleration of growth in industrial, commercial and residential property assessed values which is dependent upon a robust economy, skilled work force, and availability of properly zoned sites for development. Growth in assessed value of one percent yields and additional \$0.9M in tax revenue in 2017.
- A lower rate of growth in personnel costs. This will require a cooperative effort with our seven collective bargaining labor unions to limit the rate of wages increases to no more than CPI, controlling health claims with investment in wellness and consumer choice, and a continued favorable trend in investment returns on our pension assets.
- Federal and state funding of mandated services commensurate with demand and inflation.
- Continued prioritization and evaluation of all discretionary programs with the elimination of those that do not produce meaningful outcomes, consume more tax than benefits realized, or can be better served by the private sector.

- Rate increases in Medicare and Medicaid commensurate with resident care inflation at our nursing home.

The Commissioners are keenly aware of these challenges and are supportive of the following initiatives, each with the potential to increase revenues or reduce our operating cost footprint:

- Commercial, industrial and residential assessed value growth
- Consolidation of certain City MDJ office locations
- Consolidation and automation of assessment/land records
- Implementation of new technology and software solutions that enable process improvement
- Increases in nursing home state funding - IGT
- Elimination of the Affordable Care Act tax on healthcare benefits
- Debt reduction/maximization of interest earnings
- New management of the waste water treatment plant
- Assessment of discretionary program value to cost
- Expansion of the Berks Residential Center (i.e. BCRC)

Our ability to achieve the 2016 budget results hinges upon: the financial performance of our pension assets, outcome of collective bargaining on wage rate growth, healthcare costs inflation and claim volume, renewal of Federal and State funding at current amounts with increases for inflation as of July 1, 2016, and the actual demand for human services and level of criminal activity.

Budget Summary and Select Highlights

Our tax revenue continues to grow at a very slow pace. Taxable assessed value is expected to grow by 0.16%, a decrease in growth rate compared to the 2015 billed assessed value growth rate of 0.35%. This growth rate decline is due to slower than anticipated new development, supported by a decline in building permits and a \$15.2M, and assessment reduction for two large commercial real estate properties.

Taxes

	<u>2016</u>	<u>2015</u>
Millage Rate	7.372	7.372
Percent Change	0.0%	0.0%
Assessed Value	\$18,650,801,751	\$18,621,309,400
Percent Change	0.16%	0.35%
Net Tax Billing	\$ 131,234,997	\$ 130,917,721
Interims	\$ 421,243	\$ 439,100
Net Tax Collections	\$ 131,656,240	\$ 131,356,821
Tax Claim Revenue	\$ 4,478,688	\$ 4,672,000
Total Tax Revenue	\$ 136,134,928	\$ 136,028,821
Less: Tax Refunds	\$ (600,000)	\$ (600,000)
Net Tax Revenue	<u>\$ 135,534,928</u>	<u>\$ 135,428,821</u>

(Tax billing is net of discounts and uncollectible amounts of 4.6%)

Revenue and Expenditures (In Millions) – Excludes Bond Funded Capital

Funds	2016	2015	Incr. (Decr.)	% Change Incr. (Decr.)
<u>General Fund</u>				
Revenues	\$ 213.8	\$ 215.7	\$ (1.9)	(0.9)%
Expenditures	\$ 219.6	\$ 203.0	\$ 16.6	8.2%
Less: Adjustments	\$ 11.3	\$ 8.6	\$ 2.7	
Net Surplus (Deficit)	<u>\$ (17.1)</u>	<u>\$ 4.1</u>		

Funds	2016	2015	Incr. (Decr.)	% Change Incr. (Decr.)
<u>All Funds</u>				
Revenues	\$ 473.2	\$ 458.0	\$ 15.2	3.3%
Expenditures	\$ 488.6	\$ 457.2	\$ 31.4	6.9%
Less: Adjustments:	\$ 1.2	\$ 4.4	\$ (3.2)	
Net (Deficit) Surplus	<u>\$ (16.6)</u>	<u>\$ (3.6)</u>		

Adjustments in the General Fund are for human services match and Emergency 911 system debt and capital. Adjustments in All Funds are for depreciation expense net of capital expenditures for our enterprise funds.

Revenues: The decrease in general fund revenues of \$1.9M, or 0.9% is primarily due to reductions in indirect costs allocation \$1.2M, tax claim revenue of \$0.4M, jail state inmate revenue of \$0.3M and \$0.3M Facilities BCRC building use fee. This is offset by an increase in tax revenue of \$0.3M. Allocable indirect costs for internal service departments are lower due to lower insurance and software costs.

The increase in total operating revenue for all funds, excluding bond funded capital projects is \$15.2M or 3.3%. This increase is primarily attributable to an increase in Healthchoices and Liquid Fuel funding of \$10.6M and \$6.4M, respectively. This is reduced by the general fund revenue reduction noted above. Healthchoices funding provides healthcare for the indigent. Liquid fuel funding is used to repair and replace county owned bridges. Both sources of funding are received from the Commonwealth of Pennsylvania and are restricted in its use.

Expenditures: The increase in general fund expenditures of \$16.6M is primarily due to: higher debt service of \$13.7M, personnel cost of \$1.9M, and capital costs \$2.3M. This is reduced by lower contingency expense of \$1.2M. Debt, personnel and contingency changes are more fully described in the sections that follow.

The increase in total operating expenditures for all funds, excluding bond funded capital projects of \$31.4M or 6.9% is attributable to: Healthchoices \$10.6M, Liquid Fuels \$5M, and the increase in General Fund expenditure.

Debt Issues

Total debt service expenditure budget for all fund types is \$42M, net of derivative (i.e. SWAP) income and bond premium amortization of \$0.5M. The proposed 2016 budget reflects an increase in debt service expenditures of \$14.8M, consisting primarily of a one-time payoff of debt of \$15M reduced by annual debt service savings of \$1.35M. Our plan is to partially refinance \$10M of our 2009A bonds with a new 2016 bank qualified bond issue in Q1 of 2016 and defease (i.e. payoff) the remaining portion of the principle in the amount of \$15M. We expect this plan to reduce our annual debt service by \$1.35M per year through 2029. These SWAP agreements have a current accretive market value of \$1.8M. The revenue budget includes federal Build America Bond subsidies of \$1.2M. We do not anticipate any new money issue debt in 2016.

Fund Balance

We project total, unassigned, general fund balance of \$104.9M at December 31, 2016, a net decrease of \$24.8M compared to the 2015 adopted budget projection of \$129.7M. The decrease is primarily attributable to the one time payoff of the 2009A bonds, net of the related annual debt service savings, of \$13.7M, write off of the amount owed to the General Fund from the Emergency 911 Fund for debt service and prefunded pension payment of \$7.1M, and an increase in human service county match of \$2.7M. The debt plan is more fully described in the Debt section that follows. The fund re-classification for the Emergency 911 Fund is more fully described in the Emergency 911 section that follows.

The budget assigns fund balance for: catastrophic healthcare claims of \$4M, Route 222 expansion of \$5M, waste water treatment plant improvements of \$1M, and other assignments of \$0.4M. The budget, pursuant to legal restrictions on the use of funds, restricts fund balance for: hazmat response \$1.6M, and worker compensation, Act 198, Act 13 and parking garage funds of \$1M.

Personnel/Staffing

The 2016 personnel costs budget is \$151.9M compared to \$148.9M for 2015, an increase of \$3M or 2%. This increase is primarily attributable to an increase in wages of \$1.3M and pension costs of \$1.9M. These increases were reduced by lower worker compensation costs. Average wage rate increases for all employees is 1.3%, the majority of which is pursuant to collective bargain labor agreements which are currently in negotiation.

The proposed 2016 budget includes eight net new full time equivalent employees (i.e. FTE), funded, positions representing a wage increase of \$0.5M in wages. We added 15 positions and eliminated 7 positions. Five positions were added in Children and Youth Services (i.e. CYS), and two were added in the District Attorney Detective Unit to handle the 35% increase in reported child abuse arising from the new child abuse laws (a.k.a. Sandusky Law) that went into effect in January 2015. In addition, we are recommending four positions in IS for management of our software and development platforms and technology support positions and three more in children services for quality assurance and software development needs beginning in January and July 2016, respectively.

We expect 80% reimbursement of the additional CYS personnel costs and half of the additional detective wage for a total reimbursement of \$0.3M, yielding a net personnel increase of \$0.2M. But for the Sandusky Law impact, the net increase in headcount between the 2015 and 2016 budgets is one net new position.

A portion of these costs are included in our recommended contingency budget at November 17, 2015 and will be moved to wages in the final adopted budget for 2016.

Contingency

The 2016 Contingency reserve is \$2.3M, or 0.47% of the total operating expenditure budget of \$488.6M, well under the GFOA guideline of 5%. This is \$1.2M lower than 2015 due to the completion of major capital improvement projects in 2015. This reserve will be used to cover: children and juvenile contracted service rate increases, unforeseen building improvement costs, cuts in federal and state funding sources due to state budget impasse, additional unfunded mandated child abuse investigation costs and additional wage increases from current or potential changes to the federal minimum wage, the Fair Labor Standard Act and final collective bargain labor agreements.

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The 2016 net income is \$1.3M, compared to the 2015 budgeted net income of \$2.1M, a decrease of \$0.8M. This decline in net income is primarily attributable to higher: wage and pension costs of \$1M, interest expense on the 2015 bonds of \$0.1M, professional fees for food service management of \$0.1M and net depreciation expense of \$0.1M. This is reduced by an increase in revenue of \$600K. The 2016 revenue budget is higher due to the proposed State plan to provide additional IGT funding to place county owned nursing homes on more equal footing with privately owned nursing homes. But for this increase our budget would have shown revenue more in line with 2015 and a net income of \$0.7M.

Children and Youth Services

Inclusive of the changes noted in the personnel and contingency sections of this document, the budget for adoption on December 17, 2015 will contribute 15.17% of planned program expenditures of \$6.9M to match federal and state dollars, for the protection and placement of children in 2016. This is \$0.9M higher than the 2014 budget of \$6.0M. The increase is due to higher unreimbursed personnel and contracted service costs of \$0.2M and \$0.7K, respectively. After holding the line on vendor rate increases over the last five years, we are left with no choice but to provide increases effective January 1, 2016 for our critical service providers. After a careful review it was concluded that alternative service providers would cost more than providing increases. We do anticipate the budget impact of the provider rate increases to diminish in the 2017 budget provided our State budget allocation, effective July 1, 2016, includes the higher contracted service rates.

Emergency 911 System

At the end of 2015 the Emergency 911 System will change fund classification from an Enterprise to a Special Revenue Fund type. Consequently, we have moved this fund to the special revenue section of page 1 of our budget book. This change accounts for the decrease in total Enterprise Fund revenues and expenditures and increase partially accounts for the increase in total Special Revenue Fund revenue and expenditures on a comparative year over year budget basis comparison. Pursuant to governmental accounting standards for special revenue funds, depreciation will no longer be charged to this fund while new capital expenditures and the principal portion of debt service will be expenditures in the year incurred.

The 2016 budget projects a loss from operations is \$2.7M. This is \$4.7M lower than the 2015 loss of \$7.4M. This improvement is due to the elimination of net depreciation expense of \$3.4M, increase in 911 telecom fees of \$1M, one time decrease in radio system maintenance cost of \$1.3M, offset by higher debt service attributable to principal portion of debt of \$1.1M, and capital \$0.3M. The decrease in radio system maintenance is due to the delay in new radio system acceptance and is not recurring. The increase in 911 telecom fees is due to the \$1.65 per line fee for hardwire, cell phone and other communication devices. However, the allocation methodology for 2016 is based upon historical revenue data. The final 911 fee allocation methodology for future years has yet to be finalized.

Agricultural Land Preservation

The 2016 budget includes \$1M in anticipated farmland easement acquisition expenditures. The long term capital plan maintains a general fund commitment to farmland preservation in the amount of \$1M per year to leverage federal and state funds for new easement acquisitions.

Library System Support

The County will contribute \$3.3M in general fund tax dollars to the countywide public library system in 2016, a slight decrease over 2015. This includes continued funding of \$0.9M for the City of Reading Public Library System.

Sponsorship Agreements

- RACC - County continues its operating and capital support in the amounts of \$3.1M and \$150K, respectively. The operating stipend will be funded with County tax dollars and the capital stipend will be funded by the Berks County Redevelopment Authority, with Community Development Block Grant (i.e. CDBG) funds for specific capital projects.
- BARTA – PADOT continues to pay the local match pursuant the SCT agreement. PADOT will cover the local match through 2019.
- GREP – County continues its support of \$500K, with a match potential of up to \$200K for non-governmental support.

Capital Program

The 2016 capital expenditure plan, inclusive of bond funded capital projects, is \$33.6M. The projects are funded principally by bond proceeds, grants and to a lesser extent general fund reserves and consist of the following:

County Bridges	\$17.9 M
Facility Projects	\$2.1 M
Assessment Software	\$1.6 M
Budget and Finance Software	\$0.6 M
Elevator Modernization	\$4.4 M
Telecom VOIP Replacement	\$1.0 M
County Parks – Antietam/Bldgs	\$2.4 M
Agland Preservation	\$1.0 M
CYS Case Management System	\$0.8 M
Computer Equipment & eCad	\$0.7 M
Fleet Replacement	\$0.5 M
Other Projects	\$0.6 M
Total Plan	\$33.6 M

The largest of the County Bridge projects are: Buttonwood Street-\$6.3M, Manatawny-\$5M, Blandon-\$1.7M, Dreibelbis Station-\$1M and Phillips \$0.9M. The facility projects include: Ag Center roof, Service center cooling towers and Annex building switchgear. The software and VOIP projects are due to current platforms no longer being supported and/or are inefficient and in need of major upgrade.

Closing Remarks

The budget is presented today as the first step in the public review process. The proposed budget will be available for public inspection from this day until final adoption of the budget, scheduled for Thursday, December 17, 2015. The proposed budget is available at the County Commissioners Office, Office of Budget and Finance and is also available on our County web site.

Respectfully Submitted,

Robert J. Patrizio, Chief Financial Officer
Date: November 19, 2015